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**ARIZONA CORPORATION COMMISSION**

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June 10, 2004

Chairman Marc Spitzer  
Commissioner Mike Gleason  
Commissioner Jeff Hatch-Miller  
Commissioner Kristin Mayes  
All Parties of Record

Re: In Matter of Reorganization of UniSource Energy Corporation;  
Docket No. E-04230A-03-0933

Dear Colleagues and Parties:

The proposed merger of UniSource Energy Corporation with Saguaro Acquisition Corporation is a matter of first impression for this Commission and as such, requires us to closely scrutinize this transaction. After reviewing the testimony of Commission Staff, UniSource and RUCO, I have some follow-up questions.

1. In Staff's 3rd set of data requests, Staff asked: "Does the Company plan to sell off or otherwise divest of any of the assets, subsidiaries, or investments of UniSource after the close of the proposed transaction?" The response was: "The Investors have no current plans to sell or divest any of the assets, subsidiaries or investments of UniSource. The merger will not affect *any current plans of UniSource Energy to sell or divest* any of the assets, subsidiaries or investments of UniSource Energy in the normal course of business."

This leads me to ask: Does UniSource Energy, or any of its subsidiaries, have any plans to sell or divest any of their assets, subsidiaries or investments in the normal course of business or otherwise? If so, please identify the assets, subsidiaries or investments to be sold or divested and how the proceeds will be used. For example, had this question been put to UniSource during the proceeding where it acquired the gas and electric assets of Citizens, UniSource would have informed the Commission about the planned merger with Saguaro.

2. The annual fee that the general partner receives is disclosed on page 76 of the Direct Testimony of Staff witness John Antonuk.<sup>1</sup> Does that figure represent the entire amount

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<sup>1</sup> I understand that the amount given has been classified as "Confidential" under the terms of the Protective Agreement; therefore, I did not include the amount in my letter.

of fees that the general partner is to receive, or will there be any additional fees, including but not limited to, investment banking fees, retainer fees, directors' fees, management fees, or monitoring fees? Are the limited partners entitled to collect any fees?

3. On page 17 of the Direct Testimony of RUCO, Marylee Diaz Cortez testified that based on her initial review, TEP may be earning more than its authorized rate of return. Mr. Pignatelli responded to this on pages 23-24 of his Rebuttal Testimony by saying that the proper forum in which to address this issue is the rate case proceeding and that after "a thorough analysis of the TEP rate case data, Ms. Diaz Cortez will realize that her preliminary reaction was incorrect." If TEP is indeed over-earning, I am interested in learning whether this factor should affect the Commission's analysis of this proposed transaction. Therefore, I would like each of the parties to provide the following information:

- Please provide an analysis that discusses whether TEP is earning more than its authorized rate of return. Please identify the data used to support your conclusion.
- If you believe that TEP is earning more than its authorized rate of return, please address how, if at all, this factor should impact the Commission's analysis of this pending merger application.
- Please address whether a decrease to TEP's rates, either before or after the transaction is completed, would impact this proposed transaction. If you believe that there would be an impact, please specifically describe it.
- Please address whether it would be reasonable for the Commission to delay its consideration of this pending merger application until it has completed its review of TEP's newly filed general rate case information, Docket No. E-01933A-04-0408.

4. As a result of the merger, will there be any loss of tax revenue to Arizona at the state, county, or city level? If so, please identify where the losses will be incurred and the amounts.

5. Please provide the following documents:

- Full Curriculum Vitae of Frederick B. Rentschler.
- Minutes of UniSource Energy Corporation's Board of Directors meetings and copies of all presentations made at those meeting on
  - September 16, 2002.
  - October 14, 2002.
  - October 17, 2002.

Chairman Marc Spitzer, Commissioner Mike Gleason, Commissioner Jeff Hatch-Miller,  
Commissioner Kristin Mayes and All Parties of Record

June 10, 2004

Page 3

- August 4, 2003.
- September 30, 2003.
- October 13, 2003.
- November 11, 2003.
- November 18, 2003.
- Minutes of meetings between UniSource management and members of the Investor Group and copies of all presentations made at those meetings on
  - November 2, 2002.
  - July 14, 2003.
  - July 30, 2003.
  - September 9, 2003.
  - September 16, 2003.
- Minutes of the meetings of the Strategic Transaction Advisory Committee and copies of all presentations made at those meetings on
  - November 4, 2003.
  - November 11, 2003.
  - November 18, 2003.

Please provide me with your written answers to the foregoing questions and the documents that I have requested before 10 a.m. Friday, June 18, 2004. I look forward to your timely responses.

Sincerely,



William A. Mundell, Commissioner  
Arizona Corporation Commission